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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 277 **May, 1983**

Business in Virginia April, 1983 Data

Business in April did exceedingly well in some areas, such as new car registrations, electricity consumed, building permits and nonagricultural employment. In some other ways conditions were just fair.

The big news was in new car registrations which soared to a record increase of 74.5 percent over April of last year. Some of this perhaps needs to be taken with a small grain of salt. This is not to remove the bloom, but it is to say that a year ago auto sales were in the doldrums. For nearly the entire year they were negative, sometimes terribly so. Only in November and December did they turn around and get into the black. Thus, a good increase such as in April will tend to be somewhat overstated, since it is being compared with a terrible April a year ago. Even so it is great to see this upturn. It is indicative of some strength in the recovery. Both auto sales and housing starts have played a large role in all of the turning points in the recessions since World War II.

Building permits likewise came in strong in April of this year over a year earlier. They rose 67.8 percent in that month and for the first four months of this year they were up 47.6 percent. This too is a good record and speaks well of the future of construction. They are a good leading economic indicator, as the permits come first and the construction put-in-place follows later.

Electricity consumed rose very nicely in April with an increase of 8.1 percent. For some reason the first three months of this year saw a decline of 5.5 percent in electricity consumed. Perhaps the wheels of business and industry were just not turning as fast as anyone would like.

Nonagricultural employment took a turn for the better in April. During the first three months of this year this indicator just went no where. It was right on dead center of zero and neither rose nor fell. In April, however, it increased 0.2 percent. Granted this is not all that great but the direction is right and the Virginia jobs market is beginning to move along a positive pathway. Much of the year 1982 was under this April figure and even negative at times. Since employment lags in the upturns of the business cycle, it now looks as if progress is being made.

Retail sales this April over last were up 11.3 percent. This was not quite as good as January and March, but definitely better than the rate of inflation, which on a year-ago basis was running about 3.8 percent in April. This means that the "real" (inflation adjusted) movement was upward almost five percentage points. Furthermore, on a national basis retail sales were up only 6.5 percent. This is nothing to be deprecated, but it is to say that Virginia is doing quite well. Since consumers lead in a recovery, it appears that the upturn is on track both at home and abroad.

On the slow side, however, are checking account transactions. They were up only 12.4 percent this April over a year earlier. This will undoubtedly improve as the recovery pushes ahead and although it is stronger than the March data some weakness still persists.

Newspaper advertising linage was off 3.4 percent (a bit unusual considering the upturn in retail sales), postal receipts were up a healthy 8.1 percent and water consumption fell 7.8 percent (lots of rain in April).

(Continued on the back page)

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change April, 1982 from April,

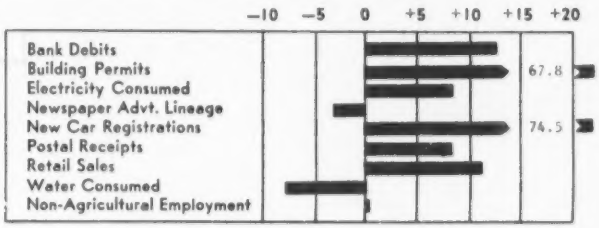
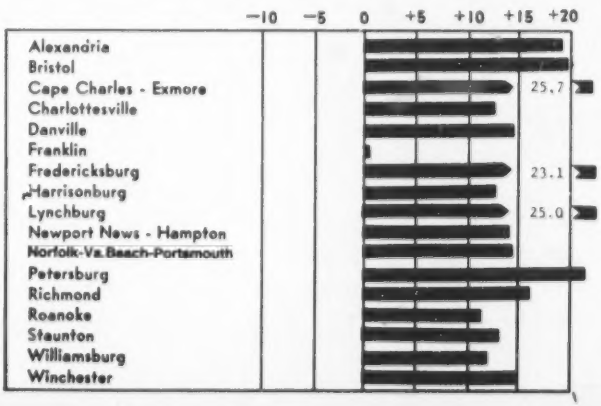


Chart II

City Indices

Percentage Change April, 1982 from April, 1983



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I April, 1983

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		300.7	146.7	113.4	96.3	134.7	110.5	82.5	128.8	189.9
Alexandria	156.2	299.6	770.4	117.4	N.A.	144.4	123.4	81.9	160.9	N.A.
Bristol	112.5	203.0	47.9	105.1	70.6	43.5	N.A.	87.6	98.2	207.8
Cape Charles - Exmore	129.5	160.6	156.9	103.4	103.4	119.6	N.A.	N.A.	139.3	131.4
Charlottesville	176.1	194.4	89.5	106.2	N.A.	136.1	N.A.	107.6	227.2	183.2
Danville	121.3	N.A.	62.7	98.2	96.3	112.0	N.A.	86.8	137.1	165.5
Franklin	114.5	N.A.	11.1	95.4	106.5	121.2	N.A.	89.5	117.0	152.6
Fredericksburg	167.6	187.7	32431.0	N.A.	125.8	171.8	N.A.	51.1	204.0	192.2
Harrisonburg	146.9	176.2	15.1	N.A.	146.9	102.7	N.A.	109.5	154.8	175.7
Lynchburg	218.6	505.6	82.5	109.0	N.A.	149.4	N.A.	103.4	133.0	482.2
Newport News - Hampton	130.5	219.7	81.8	99.0	83.8	119.0	117.3	99.1	145.4	N.A.
Norfolk - Va. Beach - Portsmouth	157.7	203.4	120.1	121.2	104.2	136.6	116.5	62.4	224.9	N.A.
Petersburg	131.3	204.6	33.1	N.A.	70.9	100.1	N.A.	122.9	136.8	141.6
Richmond	147.5	310.1	N.A.	125.2	96.0	133.4	112.2	78.6	150.7	167.2
Roanoke	137.4	233.3	163.2	91.4	120.0	98.2	103.7	94.9	146.6	192.4
Staunton	120.6	107.4	87.9	N.A.	107.7	90.7	N.A.	N.A.	124.8	164.2
Williamsburg	135.6	N.A.	178.8	133.4	N.A.	154.3	N.A.	77.7	125.2	208.4
Winchester	149.3	305.2	75.5	108.8	147.6	136.7	N.A.	104.8	110.7	208.5

TABLE II April, 1983

Percentage Change from same month last year.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	March RETAIL SALES ‡
The State		12.4	67.8	8.1	-3.4	74.5	0.2	-7.8	11.3	8.9
Alexandria	18.4	12.0	791.7	6.4	N.A.	59.4	3.4	7.4	19.4	5.8
Bristol	19.5	13.6	-69.9	11.4	-28.5	114.3	N.A.	34.8	3.5	-1.4
Cape Charles - Exmore	25.7	13.6	-37.6	3.5	N.A.	100.0	N.A.	N.A.	12.4	12.7
Charlottesville	12.6	2.2	24.0	3.3	N.A.	62.6	N.A.	-9.1	9.7	14.3
Danville	14.7	N.A.	-42.9	5.0	9.2	129.6	N.A.	-4.3	-12.1	17.6
Franklin	0.1	N.A.	-87.2	4.5	-1.0	52.9	N.A.	-10.7	-14.9	-9.3
Fredericksburg	23.1	38.5	582.5	N.A.	6.9	83.2	N.A.	-37.2	23.4	11.8
Harrisonburg	12.4	15.8	3441.9	N.A.	6.1	69.7	N.A.	-6.7	0.6	32.6
Lynchburg	25.0	33.5	-44.5	3.2	N.A.	120.4	N.A.	-16.0	11.3	8.9
Newport News - Hampton	14.3	22.0	37.9	5.4	-18.0	58.3	3.3	-2.4	19.9	11.0
Norfolk - Va. Beach - Portsmouth	14.8	2.4	46.7	5.5	-0.2	94.0	2.0	-13.8	14.4	14.0
Petersburg	21.3	58.6	-14.0	N.A.	-2.2	77.5	N.A.	2.8	4.2	17.3
Richmond	16.0	9.6	-48.0	21.3	-1.7	83.3	0.3	-10.9	13.9	7.4
Roanoke	11.0	4.7	185.3	4.3	-5.1	75.6	0.5	1.0	5.9	9.3
Staunton	12.9	13.8	-54.2	N.A.	-2.1	59.5	N.A.	N.A.	2.1	7.0
Williamsburg	11.3	N.A.	3257.7	1.8	N.A.	65.2	N.A.	-15.2	5.3	56.8
Winchester	15.0	13.4	63.8	2.2	20.4	103.4	N.A.	0.7	-6.7	15.8

TABLE III

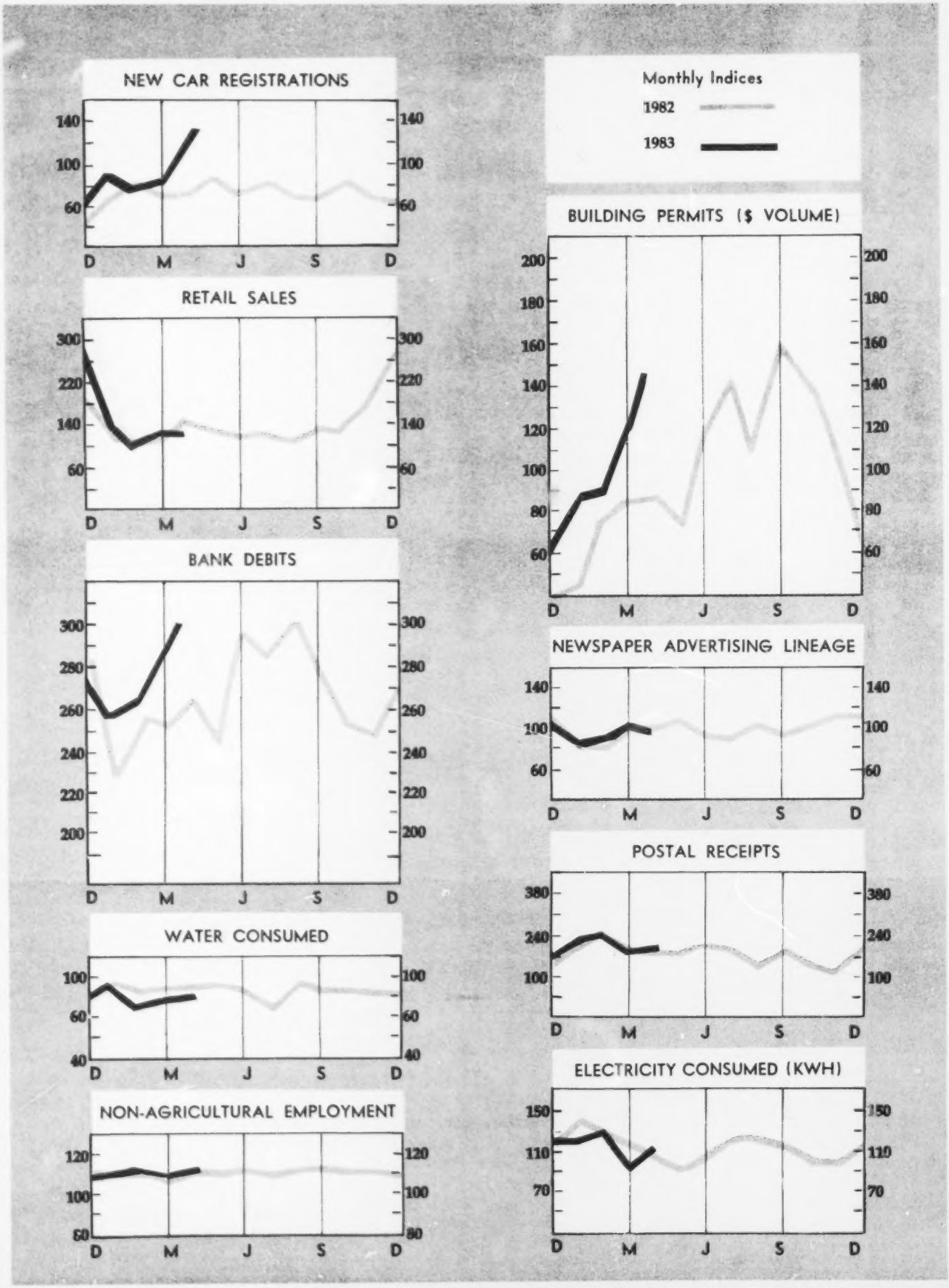
Percentage Change January - April from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Jan.-Mar. RETAIL SALES
The State		8.8	47.6	-2.6	2.9	19.3	0.1	-6.6	13.3	7.0
Alexandria	8.4	-12.6	111.6	-4.3	N.A.	21.1	3.5	7.2	17.3	8.2
Bristol	11.4	22.8	-41.3	-5.7	0.1	48.1	N.A.	4.9	7.1	-5.9
Cape Charles - Exmore	8.4	12.6	100.8	-3.1	N.A.	28.9	N.A.	N.A.	4.0	8.1
Charlottesville	7.7	9.0	27.1	-4.5	N.A.	23.8	N.A.	-3.1	9.5	9.0
Danville	1.3	N.A.	3.5	2.6	12.5	39.1	N.A.	-8.4	-12.3	6.4
Franklin	-3.2	N.A.	-34.7	-0.2	0.3	-1.6	N.A.	-11.0	-3.4	-2.8
Fredericksburg	18.7	39.5	215.9	N.A.	6.2	25.8	N.A.	-5.9	21.8	8.4
Harrisonburg	7.9	30.4	521.1	N.A.	6.3	19.7	N.A.	-5.9	1.6	34.4
Lynchburg	15.1	43.9	105.5	-2.9	N.A.	37.4	N.A.	-8.4	12.0	-0.8
Newport News - Hampton	9.1	24.9	21.8	-2.9	-9.5	24.1	3.3	-5.8	15.8	5.6
Norfolk - Va. Beach - Portsmouth	10.5	21.6	45.1	-2.9	5.7	22.0	1.6	-7.1	17.9	8.5
Petersburg	18.7	58.5	4.9	N.A.	3.4	42.0	N.A.	-3.9	10.2	9.9
Richmond	7.0	3.6	-11.7	-0.3	-2.0	30.0	-0.2	-10.8	14.2	9.1
Roanoke	4.5	8.6	115.2	0.8	4.4	-36.6	0.2	2.2	20.4	4.3
Staunton	9.8	34.2	7.4	N.A.	5.3	10.8	N.A.	N.A.	2.8	1.8
Williamsburg	8.1	N.A.	80.4	-5.1	N.A.	27.1	N.A.	-18.4	6.0	21.2
Winchester	9.4	19.6	38.2	-2.0	30.0	36.0	N.A.	3.0	-3.8	12.1

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits, which is excluded because of its highly erratic nature.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.


NEW CAR REGISTRATIONS
140
100
60
D
M
J
S
D
RETAIL SALES
300
220
140
60
BANK DEBITS
300
280
260
240
220
200
WATER CONSUMED
100
60
40
NON-AGRICULTURAL EMPLOYMENT
120
100
80
Monthly Indices
1982
1983
BUILDING PERMITS ($ VOLUME)
200
180
160
140
120
100
80
60
NEWSPAPER ADVERTISING LINEAGE
POSTAL RECEIPTS
380
240
100
ELECTRICITY CONSUMED (KWH)
150
110
70

Is Monetarism Dead?

A profuse discussion of monetary policy has errupted in the wake of economic and financial developments in 1982 as well as early 1983. The arguments in favor of the demise of monetary impacts stem largely from its impotence in 1982 and the restructuring of deposit accounts which makes monetary targets unclear.

The reply to both of these aspects is simply that this is only a temporary affair and barring any further reconstructions monetary policy will continue to have an overwhelming influence on the U.S. and world economies.

Monetary policy has for years had tremendous impacts on recessions and prosperity phases of the business cycle. The theory rests largely on the equation of exchange which in its simple form says that money of all kinds (cash, checking accounts, credit, etc.) times the velocity of money (rate of spending) is equal to the prices of all goods and services times the quantities of these transactions. The formula is stated very simply: $MV = PT$

For years it was thought that the "V" in the equation was not very significant, because velocity remained relatively constant. Likewise the "T" was thought to be slow in changing as the quantities of these enormous transactions all over the country were likewise stable. Therefore, the great influence was money on prices. If "M" grew rapidly, because of the actions of the Federal Reserve System (Fed), then prices would respond quickly and inflation would ensue. To the contrary if the quantity of money declined (Fed actions) then "P" would fall likewise.

Studies at the University of Chicago by Milton Friedman and Anna J. Schwartz as well as others have shown the lag in responses. In general an increase in the supply of money will bring about an upward movement in output (production and employment) about six months later. With prices, however, the delay is closer to eighteen months (they are sticker and do not move rapidly).

The influence on the business cycle is remarkable, given these lags. For example an expansion in the money supply took place from April, 1980, to April, 1981. The economy expanded from July, 1980, to July, 1981. There was considerable constriction of the money supply by the Fed from April, 1981, through October, 1981. The recession of 1981-82 began in earnest and continued until the beginning of 1983. This was not supposed to have happened. When the Fed saw what it was doing in the fall of 1981 (bringing on the recession), it began in December of 1981 and January of 1982 to try to turn things around. The money supply was increased slowly and then at an excessive rate. Targets for the increases were at 5½ percent. By January the increase was running at a rate of 23 percent! This eased off shortly thereafter as interest rates began to rise out of fear of the return of inflation. Even so, the economy should have picked up by late spring or early summer. It did not.

The reason lay in the decline in the velocity of money, a phenomena that does not often occur. The only previous year when it became negative besides 1982 was 1954. Now this does not mean that velocity does not change as originally thought. It does rise and fall with the periods of prosperity and recession. But it hardly becomes negative. The reason for such a harsh decline in 1982 was the intensity of the recession. Before the year was out business failures would climb to their highest level since the great depression, industrial capacity utilization would decline to its lowest percentage of usage and unemployment would reach a level comparable only with 1941. Was it any wonder that people slowed their rate of buying. Forecasters did not take this into account, however, and they missed their expectations that the economy would recover beginning late spring or early summer and most especially with the Reagan tax cut and Social Security payments July 1st. Out of fear the preponderance of that money was saved.

Hence, since there was no recovery the hue and cry went up that monetarism was dead. It had lost its power and could not be counted on to influence the business cycle. Therefore other measures had to be invoked to control the economy, such as fiscal policy (government spending and taxing power).

The fallacy of all of this does not lie in monetarism but in the forecasters who did not read the signs of the times and that includes the Fed. They of all people should have seen the decline in the velocity of money and should have taken corrective action. Such as? Forced interest rates down and continued the increase in the supply of money. This is what they finally got around to doing in the fall of 1982 and stopped the recession by the end of the year.

Although monitarist policy makers were impotent for most of 1982, monetarism did not die nor is it in process of a demise, because of the restructuring of deposit accounts. At the turn of the year the Depository Institution Deregulation Committee which was established by the Congressional Depository Institutions Act of 1982 ordered two new accounts be established by commercial banks. One was the Money Market Deposit Accounts (MMDA) and the other was the super-NOW accounts. MMDA became effective December 14, 1982, as the banks answer to money market mutual funds (MMMF). NOW accounts (negotiated orders of withdrawl) had been previously authorized and the super-NOW accounts added to them by saying there was unlimited checking (MMDA has limits) and unlimited interest rates. Super-NOW became effective January 4, 1983.

These accounts add a new dimension to monetary targets and hence controls of the money supply. M1, which the Fed watches closely, consists of currency and all checkable accounts. M2, also watched closely, includes M1 as well as small savings, overnight repurchase agreements, some overnight Eurodollars, and balances of MMMFs. The new accounts change the way in which deposits are made. M1 can appear to be ballooning when actually money is only being moved from a savings account to a checkable account with no net change in M2. Thus, M1 is not a reliable guide. But M2 still has reliability and so does M3 (M2 plus big savings accounts). Just because M1 does not have all the reliability it once had does not mean that monetarism is dead. There are other measures and other targets for controlling the supply of money.

Problems do abound, however. The important issue now is whether the Fed should respond to the increased demand for more money in circulation or should diminish it. Can it fight inflation, keep the recovery going, help stabilize world monetary conditions, and dampen the federal deficits all at once? Monetary policy is not dead. It just has its work cut out for it. LET

Prepared by the Bureau of Business Research
THE COLLEGE OF WILLIAM AND MARY
Leland E. Traywick, *Director*